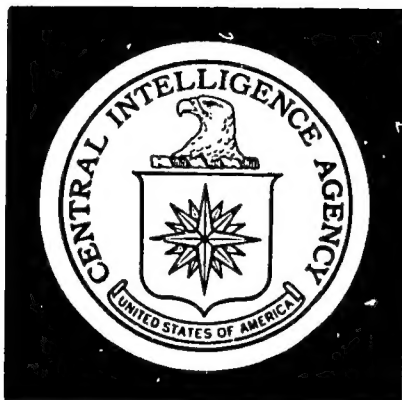


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CIA/OER/IM 71-28 Approved For Release 2001/05/07 : CIA-RDP85-01067R001600040029-8 ECONOMIC SITUATION IN CAMBODIA
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Economic Situation In Cambodia

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February 1971

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Foreword

The Cambodian government is facing critical economic problems as a result of war-induced disruptions to production and distribution and financial instability attending the rapid expansion of its military forces. This memorandum is the first of a series of monthly reviews of significant developments affecting the Cambodian economy.

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1971

INTELLIGENCE MEMORANDUM

The Economic Situation In CambodiaHighlights

There is still little evidence of serious shortages of food or basic manufactured consumer goods, in spite of recent enemy actions in and around the capital and continued interdiction and harassment of traffic on the major transportation arteries. Enemy activity continues to hold up rice exports. Although the capital is in no danger of running short of rice, inability to export rice has cost the Cambodians much needed foreign exchange and may result in a loss of markets if the government defaults on its commitments abroad. Prospects for the current rice crop, however, are very good.

Countrywide shortages of petroleum were experienced in December and January following the enemy's interdiction of Route 4 and increased harassment of traffic on alternate supply lines to Phnom Penh. A limited airlift was initiated to supplement meager surface deliveries which through January had failed to provide even basic civilian and military requirements for petroleum. Route 4 was reopened to convoys under military escort in late January, but the security of land and water routes to the city remains uncertain.

Government expenditures have increased enormously as a result of the war and mobilization but have been far less than originally projected. Nevertheless, the budget deficit, although smaller than originally projected, was the dominant factor

Note: This memorandum was prepared by the Office of Economic Research.

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behind a two-thirds increase in currency in circulation between March and November. Prices too have risen, but apparently less rapidly than currency in circulation as the Cambodian public has been slow to increase its spending.

Charts on prices and currency outstanding, government borrowing from the Banque Nationale de Cambodge, exports, imports, and foreign exchange reserves follow the text.

Military Developments Affecting the Economic Situation

Mobilization

1. The Cambodian Armed Forces (FANK) continue to increase rapidly at an estimated rate of 15,000 to 20,000 a month. We estimate that FANK exceeded its goal of attaining a strength of 210,000 by the end of 1970 although less than 180,000 were in operational status. With volunteers available in abundance, there apparently has been no conscription except for some specialists. Force expansion has been much more rapid than the rate at which recruits can be effectively trained. Shortages of harvest labor in some areas have been attributed in part to the expansion of FANK, but this has been countered to some extent by the assignment of FANK troops to work in the fields.*

Insecurity of Lines of Communication

2. In the closing months of 1970 the enemy intensified his efforts to isolate Phnom Penh. In late November a North Vietnamese army regiment seized the Pich Nil Pass segment of Route 4, thereby cutting off the flow of trade through Cambodia's only deepwater port at Kompong Som and, perhaps equally important, the movement of petroleum trucks from its only oil refinery. Other strong enemy forces blocked Cambodian efforts to open Route 6

* Communist troops have also been reported assisting with the harvest in return for a share of the crop in some of the areas under their control.

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to Kompong Thom and the fertile lands along the northern shores of the Tonle Sap. Others interdicted Route 7, isolating Kompong Cham city and its important textile and tobacco plants. These actions were supplemented by increased harassment of trucks carrying rice and other products over Route 5 from the rich northwestern provinces, as well as by renewed attacks on vessels transiting the Mekong to Phnom Penh. The enemy's holds on Routes 4 and 7 were eventually broken with the assistance of South Vietnamese ground and air units. Despite intensified Cambodian efforts to insure the safety of vital supply convoys on the Mekong and over Routes 4 and 1, traffic on these routes has continued to be subjected to occasional attacks by fire with attendant losses.

Foreign Trade

3. The prolonged interdiction of Route 4 -- from 21 November to 29 January -- isolated Cambodia's principal seaport at Kompong Som from all significant Cambodian consumers and suppliers of the imports and exports that normally transited the port. The transfer of seaborne trade, as well as petroleum shipments, to the Mekong was at the same time inhibited by increased enemy harassment of vessels attempting to use the river route to Phnom Penh. Cambodia's seaborne imports, which in the second and third quarters of the year had averaged about 45,000 tons* a month, dropped to a volume of less than 11,000 tons in December. Even more significantly, although most imports normally are consumed in the population and industrial center in Phnom Penh and its vicinity, only 4,300 tons of imports reached Phnom Penh in December, and more than half of that volume consisted of petroleum. Since there were only relatively insignificant increases in commercial transport across the Thai and South Vietnamese borders during this period, it is clear that foreign trade, which had already declined greatly,** fell to a small fraction of its normal level for about 10 weeks.

* All tonnages are expressed in metric tons.

** Seaborne trade, which constitutes most of the total foreign trade, declined from 340,000 tons in the first quarter of 1970 to 188,700 tons in the third quarter and about 122,400 tons in the last quarter.

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Monetary Developments

Government Budget

4. Government expenditures have increased enormously as a result of the war and mobilization, by less than originally projected. Monetary data show that the actual cash deficit* for the first 11 months of 1970 (but incurred largely since April) amounted to 5,513 million riels and is provisionally estimated at about 6,300 million riels for all of 1970. If revenues are not greater than the 5 billion riels estimated for 1970 -- and they may be smaller because of the sharp drop in imports, from which most revenues are collected -- then total expenditures would be something on the order of 12 billion riels, compared with official 1970 budget projections of 18.2 billion riels made last June.

5. The overestimate of budget expenditures stemmed in part from a projected military force level of 210,000 men throughout the second half of 1970. In fact, this level was not achieved until very near the end of the year. Although a breakdown of actual budget expenditures is not available, it would also appear that non-personnel costs were smaller than originally planned because Cambodia's military hardware requirements have been met from foreign grants. It is likely that budgeted civilian expenditures of 6.1 billion riels were also overstated. Expenditures on education were almost certainly smaller than anticipated because many secondary students and teachers joined the military and because a substantial portion of the population came under Communist control. A 1.3-billion-riel allocation for repair of roads, bridges, and railroad and telecommunications lines was almost certainly not spent, because repairs of this sort have been minimal. On the other hand, it is likely that expenditures also have been kept down by delaying payments to military personnel and contractors.

Money Supply

6. Nevertheless, the cash deficit, even though smaller than originally projected, was the dominant

* As measured by the increase in the government's debt to the central bank.

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factor behind a 68% rise in currency in circulation from the end of March through November, compared with a 2% increase for all of 1969. In the coming months, currency in circulation will continue to increase at an enormous rate. For the first six months of 1971, we expect increases in the cash deficit amounting to about a billion riels per month. Even larger deficits could be incurred if the current unspent backlog of authorized expenditures is reduced.

Consumer Behavior and Prices

7. There is still little evidence, however, of a strong inflationary trend. From March through October,* the price index rose only 17%, whereas currency in circulation increased nearly 60%. Recent military activity in and around the capital can be expected to have an immediate impact on prices, which, in the past, have been sensitive to enemy interruptions to the flow of supplies into the city.** For example, the sharp increase in August price levels and the subsequent decline in September were attributable in part to temporary shortages of meat arising from stepped-up military actions in Kompong Chhnang and Kompong Thom Provinces. Apart from a brisk black market trade in gasoline resulting from current fuel shortages, there have been no reports of panic buying on the part of the public. The government has successfully kept down the price of rice by selling off its stocks and can continue to do so for several months, even if disruptions to transport delay their replenishment from the current harvest.

8. Consumer psychology seems to have been an important factor in stemming any price spiral. Cambodians have been accustomed over the years to conservative fiscal and monetary policies that had

* The latest month for which such data are available.

** Harassment of traffic on Routes 5 and 6 has probably been at least as significant as enemy interdictions of Route 4 with respect to the relative effects on prices of commodities in the capital because provinces bordering the Tonle Sap, particularly Battambang, are Phnom Penh's principal suppliers of rice, fruit, vegetables, meat, and textiles.

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kept prices remarkably stable. They apparently have been willing to hold larger cash balances, possibly because of the unavailability of certain consumer items, the paucity of preferred investment opportunities, and most importantly perhaps, a reluctance to purchase durable goods and other luxury items where insecurity prevails. If, however, the military situation should improve markedly, it seems likely that consumers would regain their confidence and that the rate of spending would increase. Under these circumstances, the government would be forced to raise taxes and institute other austerity measures in order to sop up the large and rapidly growing hoards of excess currency.

Production

9. Agricultural production has not suffered any extreme setbacks. Food is plentiful. The bountiful rice crop now being harvested, together with large carry-over stocks from last year's excellent crop, has made for a very favorable rice supply situation, even in Phnom Penh, where the population has increased considerably. (Rice is dealt with in detail in a later section.) Fruit growers in Battambang suffered large losses on last year's produce as a result of transport difficulties. Unless the security of Route 5 can be insured and more trucks made available, they may market less this year. Nevertheless, supplies in the capital should remain adequate because there is considerable commercial cultivation of fruit and vegetables on its outskirts and, barring any severe deteriorations in the security situation, cultivation can be expected to continue at normal levels.

10. Sugarcane and tobacco output declined in 1970 because of enemy incursions. A large portion of each of these crops is grown in Kompong Cham, Prey Veng, and surrounding areas, where enemy concentrations have been heavy. Corn production is also believed to have declined because the main growing areas in southeastern Cambodia were the site of considerable fighting during the planting period. Corn is Cambodia's third most important export, but normally accounts for only about 5% of total export earnings.

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11. The commercial fish catch has fallen, probably because of the expulsion of Vietnamese fishermen earlier in the year, but there is no evidence of prolonged shortages either of fish or meat in Phnom Penh.

12. Cambodia's industrial crops, rubber and cotton, suffered the sharpest setbacks. Output of rubber, which normally accounted for one-fifth to two-thirds of Cambodia's export earnings, has come to a virtual standstill since the beginning of hostilities. Since the Communists forced the Chamcar Andong plantation to cease operations in January 1971, it is doubtful whether Cambodia's rubber production, which in 1969 amounted to about 50,000 tons, will even reach the 5,000 tons required by local industry. Chamcar Andong was the only plantation that had continued to operate from the beginning of the hostilities and the one which, through a *modus vivendi* with the Vietnamese Communists, had been able to supply the state tire factory with rubber. The cotton crop, grown both in Battambang and in Kompong Cham and normally harvested in early spring, has been set back by unusually heavy rains that occurred in December. According to one report, only about one-third of the expected 7,000-ton crop can be saved. About 10,500 tons of raw cotton are required annually by two state-owned textile mills in Battambang and Kompong Cham.

13. Although virtually all of Cambodia's industrial capacity is located in government-controlled areas -- the paper mill at Chhlong being the only important exception -- industry has been greatly affected by the hostilities. War damage has put the Tuk Meas fertilizer plant out of production. The damaged cement factory at Chakrei Ting has been repaired, but production has not been resumed, because large backlogs of cement have accumulated as a result of declining demand and transport difficulty. The petroleum refinery at Kompong Som has periodically been forced to shut down because the plant's storage tanks became filled when refined products could not be securely transported to Phnom Penh. The government-owned jute factory in Battambang reportedly was forced to shut down on 6 February

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after fire destroyed warehouses and 3,000 tons of jute fiber, apparently the plant's entire stock of raw material for the manufacture of rice bags. Aside from putting some 800 people out of work, the shutdown will have little economic impact because it was operating at a loss and the decline in rice exports had eliminated the market for its output.

14. Details on other major plants are unavailable, but it is hardly likely that any facility has continued to operate totally unaffected by the war. A general slowdown has been occasioned by the difficulties in bringing materials to plants and delivering finished goods to market, by labor shortages induced by the rapid expansion of the army and the exodus of ethnic Vietnamese and Chinese, by the requirement that factories form self-defense units from their labor force, and, more recently, by fuel and power shortages.

The Rice Situation

The New Crop

15. Favorable climatic conditions have produced another bountiful rice crop, estimated at about 1.4 million tons.* Although enemy incursions interfered with planting, and military recruitment has reduced the availability of harvest workers in some areas, a bountiful harvest is in full swing. Battambang Province, which contains less than 10% of the country's population but normally produces about 20% of the rice crop, has been doubly affected by enemy harassment and a shortage of harvesters.** Also, about 25% of the ricelands are in areas under Communist control, and their crops are presumed to be unavailable.

* This is slightly less than the average crop over the past five years, a period in which there were two exceptionally large harvests.

** Disruptions to transport (especially to the rail line) and insecurity have sharply limited the flow of migrant laborers into Battambang. Normally, several thousand workers were brought from Takeo, Prey Veng, and Kandal Provinces to help with the harvest.

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Nevertheless, ricelands nominally in government lands are expected to yield about 1 million tons of milled rice. Allowing for a net influx of 400,000 refugees to government-controlled areas, about 835,000 tons would be needed for internal consumption requirements, leaving a potentially exportable surplus of about 150,000 tons from this year's crop (see the table). (In mid-January 1971, the government export agency, SONEXIM, estimated the potential surplus from the new crop at only 100,000 tons.)

Transport and Marketing

16. The Cambodians probably will be unable to realize the rice crop's full economic potential, however, because hostilities have seriously disrupted transport and marketing. Under normal conditions, surplus rice was moved cheaply by rail to the marketing center at Phnom Penh or to the ports at Phnom Penh and Kompong Som for export. Only the segment of railroad from Pursat to the Thai border remains in operation and access to export markets has been restricted by the isolation (from 21 November to 29 January) of Kompong Som and the curtailment of export shipments from Phnom Penh as a result of increasing insecurity along the Mekong.

17. The increased dependence on truck transport has significantly increased the cost of transporting rice to markets. A year ago, for example, rice from Battambang could be shipped to Phnom Penh by rail for about 28 riels per bag, whereas today it costs 150 riels per bag (including 3 to 5 riels per bag to cover payments extorted at military police checkpoints) to ship the rice by truck. Truck rates were recently increased substantially because of increased incidents of theft and destruction of trucks on Route 5 at the hands of marauding bands of Khmer Communists. The deterioration of traffic security on Route 5 is reflected in the average daily shipments of rice from Battambang to Phnom Penh, which reportedly declined from 160 tons in October to only 30 tons in November.

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Exports

18. Rice exports have been severely curtailed by the disruptions of transport. An exceptional rice crop last year -- well over 3 million tons of paddy -- left larger than usual stocks of rice in the hands of both the government and the population, so that food remains plentiful in spite of the war. Before the war intensified, an export volume of 450,000 tons of milled rice was considered a possibility. Rice exports through November, however, totaled only 166,000 tons, so that stocks carried into the present harvest season were quite sizable. But Phnom Penh is now in danger of defaulting on commitments abroad and losing valuable foreign exchange while warehouses in Battambang and in the capital city are nearly filled with rice.* According to one report, many Battambang merchants are refusing to purchase rice from the current harvest because of the large stocks on hand.

Government Efforts to Aid Rice Marketing

19. The government has taken several steps to facilitate the marketing of rice, but they have been generally ineffective because of the insecurity of lines of communication. In mid-October, regulations on rice exports, under government monopoly since 1963, were liberalized in the hope that private traders would have greater success than the government agency SONEXIM. In early January, the government negotiated an agreement whereby the state insurance company (SNA) would accept 60% of the risk of trucking rice to Phnom Penh, while shippers and wholesalers as a group would accept 40%. Another move intended to stimulate transport was the return to private owners of some of the trucks requisitioned earlier for military use. More are to be returned as the government receives new trucks under current foreign aid agreements.

* The government was particularly anxious to export additional rice in December to fulfill a contract with Senegal, Cambodia's principal consumer, because the Thais were attempting to take over that market.

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20. In October, Cambodia negotiated an agreement with Thailand for the export of Cambodian rice by rail via Bangkok in the event its own facilities became inaccessible. As of the end of December, however, no rice had moved by this route. It is not clear, however, wherein the problem lies. Thailand certainly has had considerable difficulties marketing its own rice and may be reluctant to help a competitor. On the other hand, traders in Battambang have reportedly not applied for licenses to export via Bangkok because they believe Phnom Penh would not approve. It is entirely possible that the two sides cannot agree on transport charges, but no significant cost differential is apparent. While labor costs in Thailand are higher than in Cambodia, the rail distance from Battambang to Bangkok is about 35 miles less than to Kompong Som.

Communist Rice Shipments

21. There is little the Cambodian government can do to deny Cambodian rice to VC/NVA forces. Riceland in Communist hands, or at least nominally under their control, could yield surpluses amounting to more than 100,000 tons in excess of the consumption requirements of the indigenous population. By comparison, the Communist requirements are relatively modest. The Sihanouk regime had provided about 20,000 tons of rice annually to Communist forces along its eastern frontier and in southern Laos. At the present time, Communist requirements for rice are probably not much greater than that amount. Even if a surplus were not available, the enemy would not hesitate, if necessary, to confiscate civilian stocks.

Petroleum Shortages

22. The entire country has experienced petroleum shortages for more than two months because of the enemy's increased harassment of lines of communication. The interdiction of Route 4 on 21 November 1970 isolated Cambodia's only petroleum refinery at Kompong Som from Phnom Penh, the primary center for both consumption and distribution. Emergency measures to ship petroleum up the Mekong from supplies in Saigon have been hampered by increased enemy attacks in which several

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petroleum barges and Cambodia's only tanker were sunk and several dry cargo ships and naval gunboats were seriously damaged. A shortage of trucks, as well as the threat of enemy harassment, inhibited the mounting of a significant resupply effort overland from Saigon via Route 1.

23. To conserve rapidly dwindling petroleum supplies, countrywide gasoline rationing was initiated on 10 December. In early January the sale of gasoline to nonessential consumers was stopped, and the rationing of electric power was imposed in Phnom Penh.

24. Petroleum deliveries to Phnom Penh in both December and January fell far short of the estimated 9,000 tons a month required to cover essential military and civilian needs. Prior to December, deliveries to Phnom Penh ranged from 15,000 to 17,000 tons a month, but these included products for the northwestern provinces which, since early December, have been supplied with petroleum delivered by truck from Thailand.

25. The impact of the petroleum shortage was felt first by householders who rely on kerosine for cooking, after Phnom Penh's reserves of kerosine were exhausted in early December. Rationing and the subsequent cessation of gasoline sales to nonessential consumers soon stimulated a thriving black market in gasoline spirited to Phnom Penh from stocks held by South Vietnamese forces at Neak Luong. Although vehicle fuels and other petroleum products are being shipped from Thailand to Battambang city, consumer demand exceeds supply. A daily airlift from Saigon to Phnom Penh of aviation gasoline for military use was initiated on 15 January. The quantities of petroleum delivered to Phnom Penh in December and January were insufficient to cover essential civilian and FANK needs. The depletion of reserves of industrial fuels during the week of 24 January and the threatened shutdown of Phnom Penh's central powerplants prompted an expansion of the airlift to include industrial diesel fuel beginning on 28 January. Airborne petroleum deliveries apparently were curtailed after a large riverine convoy reached Phnom Penh in early February.

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26. The petroleum shortage may persist for some time. Although Route 4 was opened to truck convoys under military escort on 29 January, its security continues to be tenuous. Despite the employment of strong security patrols, armored escorts, and air cover, several convoys have been attacked and losses of vehicles and personnel have been incurred. So far, commercial traffic over Route 4 is only a small fraction of what it was prior to the November interdiction, and shipments up the Mekong are necessary to provide Phnom Penh's petroleum requirements. Resupply convoys sailing the Mekong also continue to be harassed by enemy fire, however, despite the formidable counter-fire potential of dozens of escorting gunboats, airborne gunships, and increased FANK/ARVN patrols along the river's banks. Consequently, few large foreign cargo ships have ventured up the Mekong in the past few weeks. Nevertheless, the Cambodians now have in service enough chartered barges and small tankers to cover FANK and basic civilian petroleum requirements in the Phnom Penh area. The volume of petroleum reaching Phnom Penh has not been sufficient to permit any significant rebuilding of reserve stocks, however, so that any new interruption of deliveries would soon be felt.

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Cambodia: Production and Consumption of Milled Rice for 1971, by Area of Communist and Cambodian Control a/

	Thousands		Thousand Metric Tons					
	Estimated 1970 Population		Estimated 1970/71 Production		Estimated Consumption Requirements <u>b/</u>		Estimated Surplus or Deficit	
	GKR-Controlled Area	Communist-Controlled Area	GKR-Controlled Area	Communist-Controlled Area	GKR-Controlled Area	Communist-Controlled Area <u>c/</u>	GKR-Controlled Area	Communist-Controlled Area
Provinces under GKR control	2,225	0	430	0	355	0	75	0
Battambang	655	0	235	0	105	0	130	0
Koh Kong	45	0	5	0	5	0	0	0
Kompong Chhnang	325	0	65	0	50	0	15	0
Kompong Speu	365	0	65	0	60	0	5	0
Pursat	215	0	60	0	35	0	25	0
Autonomous municipalities <u>d/</u>	620	0	Negl.	0	100	0	-100	0
Provinces under partial GKR control <u>e/</u>	2,585	1,820	560	365	415	290	145	75
Kampot	285	120	80	35	45	20	35	15
Kandal	725	115	65	10	115	20	-50	-5
Kompong Cham	415	560	95	25	65	90	30	-65
Kompong Thom	55	280	15	70	10	45	5	25
Oddar Meanchey	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Prey Veng	325	255	85	70	50	40	30	30
Siem Reap	165	205	65	75	25	35	35	45
Svay Rieng	200	145	70	50	30	25	40	25
Takeo	415	140	85	30	65	20	20	5
Provinces under Communist control	0	320	0	30	0	50	0	-20
Kratie	0	150	0	15	0	25	0	-10
Mondulkiri	0	20	0	Negl.	0	5	0	-5
Preah Vihear	0	50	0	Negl.	0	10	0	-10
Ratanakiri	0	60	0	15	0	10	0	5
Stung Treng	0	40	0	Negl.	0	5	0	-5
Total	4,810	2,140	990	395	770	340	220	55
Consumption needs of approximately 400,000 refugees							-65	65
Potential surplus							155 <u>f/</u>	120 <u>f/</u>

a. Data have been rounded to the nearest five. Because of rounding, components may not add to the totals shown.

b. Estimated at 0.16 metric ton per person annually.

c. Consumption requirements for indigenous Cambodians only.

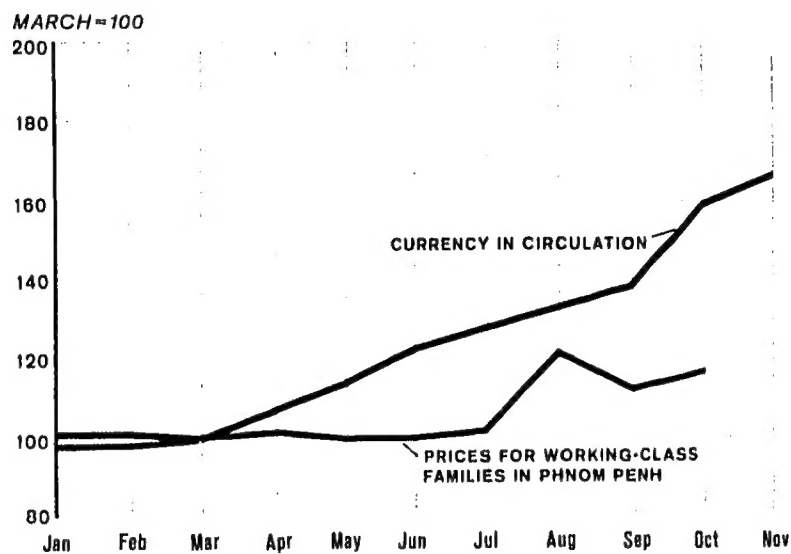
d. Including Phnom Penh, Kompong Som, Bokor, and Kep.

e. Population and rice production are assumed to be distributed proportionately to areas of control.

f. This estimate was derived by projecting demonstrated peacetime production capability. Except for an estimated 20% country-wide decline in rice planting, it contains no other adjustment for the effects on rice production as a result of damage, enemy occupation, and refugee movements. Consequently, actual surpluses -- particularly in enemy-controlled areas -- may be much smaller.

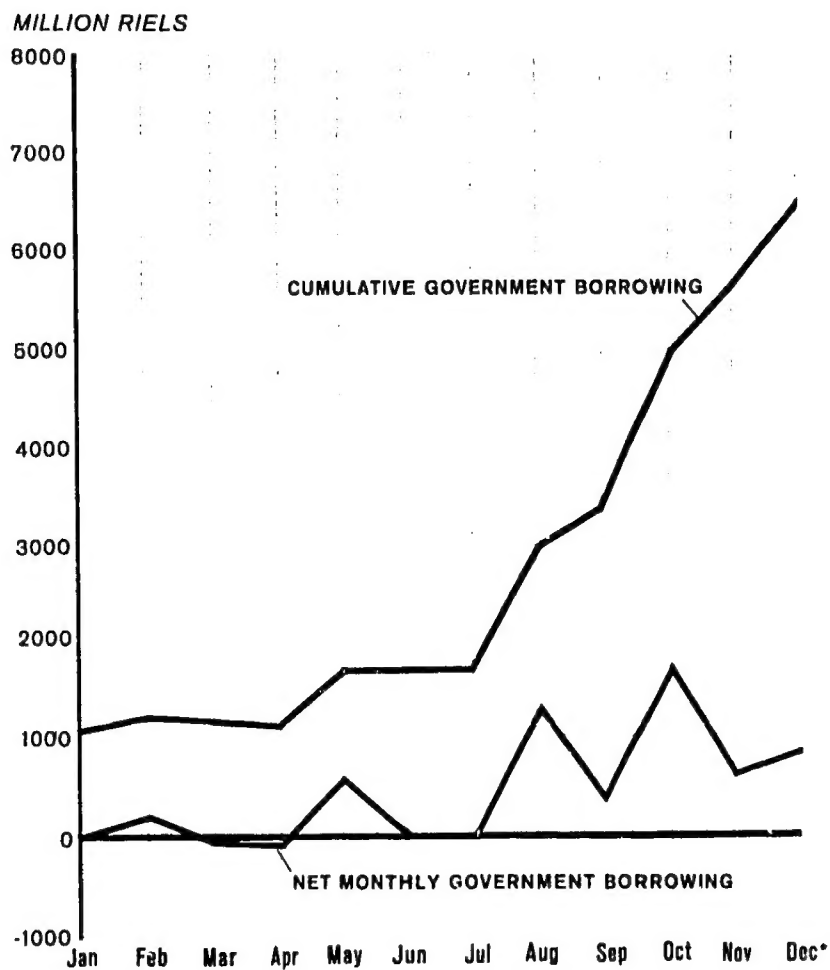
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CAMBODIA: Indices of Currency and of Prices, 1970



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CAMBODIA: Government Borrowing
from the Banque Nationale du Cambodge, 1970



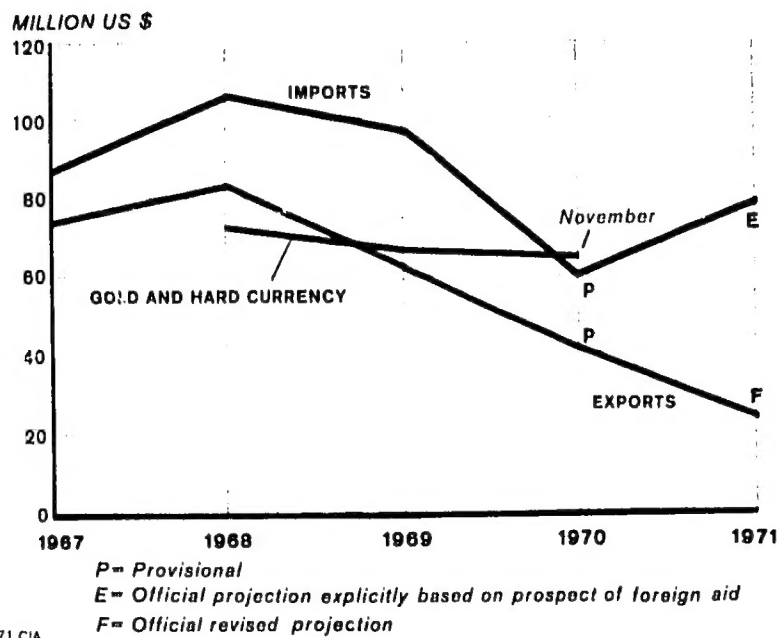
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**CAMBODIA: Imports, Exports,
and Gold and Hard Currency Holdings**



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